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SIPDIS

SENSITIVE

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TAGS: [ETRD](#) [ECON](#) [EINV](#) [EIND](#) [VM](#) [BTA](#) [WTO](#)

SUBJECT: TRYING TO GET THE MOF BEYOND CENTRAL PLANNING

SENSITIVE BUT UNCLASSIFIED -- PROTECT ACCORDINGLY.

REF: 02 HANOI 3029

1. (SBU) SUMMARY: In a July 11 meeting, the Ambassador urged the Ministry of Finance (MOF) to issue investment licenses to three U.S. insurance companies and to be ready to meet BTA obligations related to customs valuation that come due in December 2003. Ambassador also raised USG concerns over recent GVN efforts to raise taxes and tariffs on auto parts and apply tariff-rate quotas to certain agricultural products not previously under quota, highlighting the connection between many of these issues and Vietnam's bid to join the World Trade Organization (WTO). While positive on the need for opening the insurance sector, MOF did not commit to any specific time frame for issuing licenses to U.S. insurance companies. End Summary.

2. (U) During a lengthy meeting on July 11, the Ambassador and Vice Minister of Finance Le Thi Bang Tam discussed a wide range of important bilateral issues. (The discussion of bilateral cooperation and taxation of donor assistance will be reported septel.) Vice Minister Tam is a good interlocutor whose name has occasionally been bandied about as a potential successor to the GVN's current lead WTO negotiator, Vice Minister of Trade Luong Van Tu.

#### INSURANCE LICENSES

3. (U) Ambassador emphasized the necessity of opening up the insurance sector to competition in order to assist implementation of the U.S.-Vietnam Bilateral Trade Agreement (BTA) and accession to the World Trade Organization (WTO). Many non-life insurance products needed for trade development, such as product liability insurance, do not yet exist in Vietnam, he noted, while arguing that opening this market is a development issue. With only around 10 per cent of the money collected from insurance policies staying in Vietnam, a significant amount of capital -- which could be used to finance needed projects -- is going overseas for re-insurance. The Ambassador raised an additional concern regarding the GVN's tendency to treat the granting of licenses as a favor to be doled out among countries, which he was commented reflected "old, central planning thinking."

4. (U) Vice Minister Tam claimed in response that Vietnam had opened its insurance market even faster than China. Before 1996, only one insurance company and a few representative offices existed. Now, Vietnam has 21 insurance companies and 30 representative offices, many of which have some foreign ownership. In the BTA and Vietnam's insurance development strategy, Vietnam has committed to opening this sector, she reiterated. Vice Minister Tam pledged that Vietnam would open in accordance with its commitments, ensuring a balance between the life and non-life markets. She also informed Ambassador of the GVN's decision to establish a separate Insurance Department within MOF and asked for assistance in building the capacity of the new department's regulatory staff.

5. (U) Vice Minister Tam stated her desire to grant licenses to the three U.S. companies (ACE, New York Life, and AIG) with pending applications. However, because they are large companies with a significant amount of experience, their entry to the market must be phased in, she said. The GVN has recommended to these companies that they study the insurance market and cooperate with existing enterprises to help develop the market so that they would be effective when they are granted licenses. (Note: When queried, Vice Minister Tam clarified that this was not meant to signal that they must form joint ventures. End note.) The GVN could not simultaneously grant licenses to all three, she said, but would gradually issue the licenses based on the companies' respective contribution to the market's development.

16. (U) Stating that all countries want BTA-level treatment for insurance, Vice Minister Tam asserted that strict implementation of the BTA is necessary for WTO accession. In her view, early opening under the BTA would obligate Vietnam to offer the same conditions to other countries under the WTO. However, Vietnam preferred gradually to expand its insurance market in order to ensure a smooth opening. The Ambassador noted that there is nothing in the BTA that prevents early implementation of Vietnam's commitments. If Vietnam undertakes to open before the deadline, a new MFN obligation does not necessarily develop as a result. Additionally, deferring implementation of this sector's obligations until absolutely required by the BTA -- rather than implementing them sooner to benefit the economy -- could hurt Vietnam's development.

#### AUTO TAXES AND TARIFFS -----

17. (U) The Ambassador pointed out that the GVN appears to be taking a number of protectionist steps as it nonetheless proceeds with the WTO accession process. One example of these actions is MOF's efforts to raise import duties and the special consumption tax (SCT) on automobile kits (CKDs). (See reftel for discussion about a similar decree in December 2002 that had been temporarily suspended.) In May, the National Assembly passed a proposal to impose a 10 percent VAT on all cars and increase the SCT on CKDs starting in 2004 and going up to 80 percent on some models by 2007. In addition, the MOF continues to consider a proposal to harmonize upward the tariff rates applied to CKD kits and completely built units (CBUs). The Ambassador argued that the GVN's approach to harmonization runs counter to what the GVN should be doing: the GVN is increasing taxes when it should be decreasing them. While the Ambassador admitted that taxes are the provenance of the GVN, he emphasized that the results of such a policy will not encourage the industry or potential investors. Such policies imply that the GVN is willing to take actions that can suddenly undermine a foreign investment.

18. (U) Vice Minister Tam urged the Ambassador to see the issue from both sides. Although the GVN granted licenses that required a gradual increase in local content and provided incentives to achieve this end, auto investors concentrated on assembly and did not create the promised local parts production. In response to the Ambassador's argument that the GVN could accomplish its goal of removing the protection by simply decreasing the taxes on CBUs, Vice Minister Tam asserted that the GVN is indeed gradually reducing the rates for CBUs. However, the GVN will simultaneously slightly increase the tariff rate on parts and components between now and 2006, and thereafter will reduce the rates again.

19. (U) Arguing that a policy of enforcing the level of local content is contrary to the WTO and an example of creating new problems as Vietnam prepares for WTO accession, the Ambassador pointed out that, in market economies, companies decide to localize based on market conditions. Vietnam's rejection of this fact is another attempt to continue planning its economy. The Ambassador further highlighted that this policy will drive most auto companies out of business. Only those companies with parts manufacturing plants in the ASEAN Free Trade Area (AFTA) will be able to compete, because imports from AFTA are now subject to lower rates under the Common Effective Preferential Tariff (CEPT). Therefore, the Ambassador argued, this difference in tariff rates creates a "loophole." Vice Minister Tam responded that they are more concerned about parts from China than about those from AFTA. However, she acknowledged that some companies will be unable to keep up with the "integration" and will go bankrupt.

#### TARIFF-RATE QUOTAS -----

10. (U) The Ambassador raised the Prime Minister's recent decision to apply tariff-rate quotas (TRQs) on certain agricultural products not previously under quota (dairy, cotton, salt, and other items) as an additional example of Vietnam moving in the wrong direction while seeking to accede to the WTO. Vice Minister Tam defended this action by pointing out that, although Vietnam is in the process of removing non-tariff barriers in order to integrate into the world economy, many regional countries apply such measures. Because the affected items must currently be imported, the policy aims to give the domestic industry time to make itself competitive so that Vietnam can balance imports with domestic production. Under the new policy, the tariff rate will be MFN within quota, but it will be one and a half times higher for imports above the quota quantity. Like other countries, Vice Minister Tam asserted, Vietnam plans to increase and then remove the quota over time. The actual timing will depend upon Vietnam's commitments under trade

agreements. The Ministry of Trade is responsible for providing guidelines for the implementation of the TRQs.

#### CUSTOMS ISSUES

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11. (U) The Ambassador also reminded MOF that several customs-related BTA obligations will come into effect in December 2003, including determining customs valuation based on the transaction value and limiting other customs fees and charges to the cost of the service rendered. He emphasized that - as the U.S. side noted during the last meeting of the BTA Joint Committee in March - customs valuation is an important BTA obligation, and the USG expects the GVN to meet this obligation on time.

12. (U) Vice Minister Tam claimed that implementation of this BTA obligation is on course. At the beginning of 2003, MOF had issued a decree asking Customs to formulate a circular on this issue. This circular is presently being "perfected" due to some changes required by AFTA. Despite some technical problems in the Customs Department, the GVN will follow the timeline prescribed by the BTA. Vice Minister Tam has also asked Customs to formulate a plan for technical assistance to address these difficulties, and they will work with the USAID-funded Support for Trade Acceleration (STAR) project on these issues starting in September. (Note: This will give customs at most four months to deal with its "technical problems" and begin assessing customs duties according to its BTA obligations. End note.)

13. (U) The Ambassador also raised the Vietnamese-EU draft agreement that, when implemented, will eliminate minimum import prices for wines, spirits, and ceramic tiles of EU origin. He highlighted that the USG expects the same treatment for U.S. goods in these categories based on the guarantee of MFN application of customs duties. Furthermore, he once again urged MOF to make its applied tariff schedule available, pointing out that WTO negotiations cannot occur until members have this document.

14. (SBU) COMMENT: Termed by Vice Minister Tam a "frank and open" discussion, this meeting presented a good opportunity for the Ambassador to engage the Ministry of Finance on a range of issues and lay markers on areas of disagreement - including auto tariffs and TRQs. In the past six months, the GVN has refined its argument on insurance licenses, no longer arguing that it has implemented its BTA obligations in insurance early because one U.S. company has a license. This meeting also gave the Ambassador an important chance to correct some of the GVN's current misconceptions, including the belief that opening a sector early under the BTA will create new MFN commitments. Vice Minister Tam did not commit to any specific time frame for issuing licenses to U.S. insurance companies, even though she recognized the need to expand this sector. It is disappointing but not surprising that she was also unable to agree to reverse the GVN's policies on auto taxes and tariffs or TRQs -- despite potential impact on Vietnam's WTO accession bid -- since this decision was likely taken at political levels well above her.  
BURGHARDT